

Message Text

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11

ACTION AF-18

INFO OCT-01 ADP-00 EUR-25 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 RSR-01 /153 W

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FM AMEMBASSY TANANARIVE

TO SECSTATE WASHDC 5503

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E. O. 11652: DECON 7/26/74

TAGS: ETRD, MA, US

SUBJ: MALAGASY VANILLA PRICING PROBLEM

REF: STATE 146366

BEGIN SUMMARY: GOMR DESIRES USG HELP IN DEALING WITH SERIOUS VANILLA EXPORT PRICING PROBLEM ARISING FROM DECLINE IN VALUE OF DOLLAR. DESPITE OUR POINTING OUT LIMITATIONS ON USG ACTION AND POSSIBLE DISADVANTAGES OF PRICE INCREASE, MALAGASY REITERATED DESIRE THAT PROBLEM BE SUBMITTED FOR WASH CONSIDERATION OF WHAT CAN BE DONE. IN VIEW IMPORTANCE TO OUR POLITICAL AND COMMERCIAL POSITION HERE, SOME US GESTRUE WOULD BE HELPFUL. END SUMMARY.

1. ON 25JUL, SERIOUS MALAGASY VANILLA PRICING PROBLEM WAS RAISED SERIATIM WITH ME BY MALAGASY MINECON & FINANCE RAMAROSON, DIRGEN OF GOVT COL RABETAFIKA, AND HEAD OF GOVT GEN RAMANANTSOA. PROBLEM ARISES BECAUSE, WITH EXPORT SALES PRICE TO US (MARKET FOR TWO-THIRDS OF MALAGASY VANILLA EXPORTS) ESTABLISHED IN DOLLARS, INCOME TO MALAGASY PRODUCERS SUBSTANTIALLY REDUCED AS RESULT DECLINE IN VALUE OF DOLLAR DURING 1973.

2. GOMR IS GREATLY PREOCCUPIED WITH PROBLEM BECAUSE VANILLA

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PRODUCED IN COASTAL AREA AND GOVT WANTS DEMONSTRATE THAT IT PRO-

TECTING INTERESTS OF COASTAL PEOPLE TO HELP PREVENT RECURRENCE OF ANTI-GOVERNMENT RIOTS AND VIOLENCE WHICH BROKE OUT IN COASTAL AREAS SEVERAL MONTHS AGO FOR ETHNIC REASONS.

3. GOVT IS THUS BESEECHING USG HELP IN RESOLVING PROBLEM. IT HAS ALREADY ASKED US IMPORTERS FOR PRICE INCREASE FROM SOME \$13 TO SOME \$16 PER KILO, BUT LATTER REPLIED BY TELEGRAM (COPY OF WHICH SENT DIRECTLY THIS EMBASSY) THAT PRICE SHOULD STAY AT ORIGINAL LEVEL.

4. WHILE REFTTEL ARRIVED TOO LATE FOR MY DISCUSSIONS WITH MALAGASY OFFICIALS, I HAD ALREADY MADE ONE OR MORE OF FOLLOWING POINTS TO EACH OFFICIAL WHO RAISED QUESTION:

A) INTRODUCTION OF PHASE IV PRICE CONTROLS ELIMINATES PREVIOUS USG IMPEDIMENT TO PRICE INCREASE DESIRED BY MALAGASY.

B) INCREASE IN PRICE OF VANILLA COULD SERIOUSLY RISK SUBSTANTIAL SHIFT TO ARTIFICIAL SUBSTITUTE. I COMPARED POSSIBLE MOVEMENT HERE TO WHAT I KNOW HAS OCCURRED IN NATURAL VERSUS SYNTHETIC RUBBER MARKET WHEN PRICE OF NATURAL PRODUCT RISES TOO MUCH.

C) I REFERRED TO LARGE VANILLA STOCKS ON HAND IN MADAGASCAR WHICH WOULD SEEM REPRESENT OBSTACLE TO EFFECTIVE PRICE INCREASE.

D) I ALSO NOTED WITH SMILE THAT GOMR COULD PREVENT FURTHER PROBLEMS OF PRESENT SORT IN VANILLA MARKET BY LINKING MALAGASY FRANC TO DOLLAR. I MADE IT CLEAR I WAS NOT RECOMMENDING THIS ACTION TO GOVT AS THERE ARE OTHER CONSIDERATIONS BESIDES VANILLA MARKET TO BE TAKEN INTO ACCOUNT ON EXCHANGE RATE QUESTION. (INTERESTINGLY, MINECON & FINANCE INDIRECTLY ACKNOWLEDGED THAT GOMR STUDYING THIS ASPECT OF POLICY ALONG WITH MANY OTHERS EFFECTING MALAGASY INTERESTS.)

5. IN VIEW IMPORTANCE ATTACHED BY GOMR TO THIS PROBLEM, AND REITERATED DESIRE FOR SOME ACTION BY USG TO HELP DEAL WITH IT, I PROMISED THAT I WOULD PASS MALAGASY REQUEST TO WASH. MINECON & FINANCE EXPRESSED AWARENESS THAT USG HAS NO CONTROL OVER IMPORTERS, BUT STILL ASKED FOR US CONSIDERATION OF WHAT COULD BE DONE.

6. I RECOGNIZE HOW DIFFICULT IT IS FOR DEPT TO ACT IN THIS SITUATION. IF, HOWEVER, DEPT COULD MAKE SOME GESTURE SUCH AS ASKING US IMPORTERS TO ENGAGE IN FURTHER DISCUSSIONS WITH GOMR LIMITED OFFICIAL USE

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ON THIS PROBLEM (WHICH IMPORTERS INDICATE IN THEIR TELEGRAM THEY PREPARED TO DO IN ANY CASE IF MALGASY WISH), IT MIGHT HELP HEAD OFF FURTHER MALAGASY TALK (INCLUDING ALLUSION BY GEN RAMANANTSOA) OF USG SUBSIDIZATION OF VANILLA PRICE AS MEASURE "BY BIG RICH COUNTRY TO PREVENT SMALL UNDERDEVELOPED COUNTRY FROM BEING HURT BY DOLLAR DECLINE". AS INDICATED TANANARIVE 1002, USG RESPONSE CAN ALSO INFLUENCE MALAGASY ATTITUDE TOWARD IMPORTS FROM US. MENDENHALL

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